MULTIMEDIA UNIVERSITY

STUDENT ID NO									

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2021/2022

BAC2674 – TAXATION I

(All Sections/Groups)

30 NOVEMBER 2021
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 12 pages, excluding the cover page, with 5 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Adelaide and Sydney are partners of AS Media Consultants, which has been providing public relation management services for the past ten years.

After five years in the business, Adelaide and Sydney had revised their original partnership agreement to as follows. The revised agreement took effect from 1 January 2016.

- Each partner is entitled to annual salaries of RM210,000.
- Each partner is to be paid an interest of 5.5% per annum for their respective capital contributions of RM200,000.
- Any profit or loss incurred during the financial year will be split between them at the ratio of 1:1.

The tax records of AS Media Consultants for the year ended 31 December 2020 showed that the partnership had recorded a provisional adjusted income of RM120,000. It was also eligible for RM9,010 in capital allowances. Meanwhile, the business' accounting records showed that Adelaide and Sydney had used RM9,000 and RM7,000, respectively, of the partnership's fund for private purposes. The partnership had also donated RM1,090 in cash to the State Government's COVID-19 Disaster Fund on 19 April 2020.

Besides AS Media Consultants, Adelaide and Sydney are both involved in other ventures of their own. At the end of year 2020, Adelaide had earned an adjusted income of RM14,500 from her own trading business. This trading business also recorded a loss of RM4,250 from the Year of Assessment (YA) 2019, which remained unutilised as at 31 December 2020. Meanwhile, Sydney had earned a gross rental income of RM120,000 from his condominium in Puchong for the year 2020. During the year, Sydney had spent RM13,818 to repair the leaking washroom floor of the condominium. Upon the advice of the contractor, Sydney had used higher-quality epoxy flooring in replacement of the original tiles for the washroom.

Required:

i. Compute the divisible income of the partnership for YA2020.

(5 marks)

ii. Calculate the total income of the partners for YA2020.

(15 marks)

(Total: 20 marks)

Continued …

QUESTION 2

Megat works in First Tech Sdn Bhd (FTSB), a medium-sized IT firm in Shah Alam, Selangor. After four years of working with FTSB, Megat had been promoted to permanent IT specialist position with effect from 1 January 2020.

Megat is married and has a two-year-old son named Rayyan and a three-year-old daughter named Sarah. His wife, Sharifah, is a full-time housewife. The couple also looks after Megat's seventy-five-year-old father, Tok Wan, who has no income of his own.

The following information details Megat's income and expenses throughout the year 2020.

Employment Income and Benefits

- Annual gross salary of RM96,000.
- Allowance of RM6,000 per annum for Megat to contact clients via telephone.
- Performance bonus of RM16,000 for the year 2020.
- 11% of his salary and performance bonus had been deducted as contribution to his Employee's Provident Fund (EPF) account.
- Family medical benefit package amounting to RM8,000 for the year.
- Unfurnished accommodation with yearly rental of RM24,000 paid by the company.
- Air fares of RM5,000 paid by the company for Megat alone to holiday in Germany.
- Contribution to SOCSO of RM19.50 per month through salary deductions.
- Interest subsidy of RM12,000 for the year on Megat's residential property loan. The loan amount was RM296,750.

Other income

- He received an interest of RM3,670 from his fixed deposit savings in AmBank (M) Bhd.

Expenditure

- Purchase of books and magazines amounting to RM1,000.
- Home broadband internet subscription of RM150 per month registered under Megat's name.
- Purchase of an Apple's iPad Air on 2 June 2020 for his own personal use for RM4,048. The iPad was RM3,799 and the AppleCare Protection Plan was RM249.
- Annual membership fee of RM200 paid to the Association of Information Technology Professionals (AITP). The membership is required by his profession and is essential for him to discharge his employment duties.
- Yearly medical insurance premium of RM4,731 for himself, his wife, and their children.
- Purchase of breast-feeding equipment of RM910 for Sharifah.
- Cash donation of RM1,800 to approved local charitable organisations.
- Zakat fitrah of RM263.84 paid for the year.

Continued …

Required:

Calculate the income tax payable of Megat for the Year of Assessment (YA) 2020. Show ALL relevant workings. Round up your answers to the nearest Ringgit Malaysia (RM) except for the income tax payable values.

*Note: You should indicate by the use of word "**nil**" for any item referred to in the question which no adjusting entry needs to be made or no reliefs or rebates to be given in the tax computation.*

(Total: 20 marks)

QUESTION 3

Part A

De' Ayu Cosmetics is solely owned by Datin Farah and manufactures cosmeceutical products for the local market. It closes its account on 31 December annually.

During the financial year 2020, De' Ayu Cosmetics has introduced a new business line involving beauty and personal care consultation services. Datin Farah leads this consultation services along with few staffs from the existing manufacturing business.

The statements of profit and loss for each business lines of De' Ayu Cosmetics for the financial year ended 31 December 2020 are as follows.

De' Ayu Cosmetics
Beauty and Personal Care Consultation Services Business
Statement of Profit and Loss
For the Financial Year Ended 31 December 2020

	Note	RM	RM
Revenue			119,000
Less:			
Entertainment expenses (general)		15,000	
Salaries for employees		24,000	
Miscellaneous expenses	1	37,000	(76,000)
Profit before tax			43,000

Continued …

De' Ayu Cosmetics
Cosmeceutical Product Manufacturing Business
Statement of Profit and Loss
For the Financial Year Ended 31 December 2020

	Note	RM	RM
Revenue			1,200,000
Less: Cost of sales	2		(460,000)
Gross profit			740,000
Add: Other income	3		8,000
			748,000
Less: Expenditures			
Staff cost	4	263,100	
Miscellaneous expense (trade related)		300,000	
Research and development	5	18,000	(581,100)
Profit before tax			166,900

Notes:

[Note 1 relates to the beauty and personal care consultation services business]

1. Miscellaneous expenses included contribution of groceries worth RM2,000 to Yayasan Food Bank Malaysia (YFBM), which was an approved institution.

[Notes 2 to 6 relate to the cosmeceutical product manufacturing business]

2. Cost of sales included damaged stocks written-off of RM3,120.

3. Other income was made up of gross dividend received during the year from investment in shares of listed companies in Indonesia.

4. Staff costs comprised of staff salaries amounting to RM210,000, contribution to the Employees' Provident Fund (EPF) totalling RM23,100, and staff annual dinner costing RM30,000.

5. Expenses incurred were for approved research and development activities with regard to the development of new colours for the cosmetics.

6. Additional information:
   i. The capital allowance for the Year of Assessment (YA) 2020 was RM35,000.
   ii. The unabsorbed loss brought forward from YA2019 was RM15,200.

Continued …

Required:

Calculate the total income of Datin Farah for YA2020.

*Note: Start your computation with profit before taxation figure. Indicate '**nil**' in the appropriate column for item that does not require adjustment.*

(14 marks)

Part B

Hajar owns a shop selling batik merchandises in Kuala Pilah. During the financial year ended 31 December 2020, the following occurrences had taken place in her business.

i. Hajar had participated in a local traditional fashion event which was opened to the public in May 2020. In promoting her shop, Hajar had distributed batik handkerchiefs and small scarves as gifts to the visitors of her booth. These gifts were all taken from her shop's inventory and did not carry her business' logo.

   As Hajar viewed the gifts as her incurred business expense, she had deducted their full cost of RM2,980 in computing her adjusted business income.

ii. Hajar has employed Saerah, a local girl with walking disabilities, as her shopkeeper. Saerah is the holder of a disability card issued by the Department of Social Welfare.

   In August 2020, Hajar had built a ramp at the shop's entrance to give Saerah an easier access. Hajar had also built a special work platform to accommodate Saerah's wheelchair in the shop's back office. The total cost for both ramp and platform was RM8,500. Hajar decided to recognise the cost as qualifying expenditure and claimed industrial building allowance on it.

Required:

Analyse each of the above transactions. Advise Hajar with regard to the suitable tax treatments for these transactions in the Year of Assessment (YA) 2020.

(6 marks)

(Total: 20 marks)

QUESTION 4

Part A

On 11 August 2019, Mr. Wee had finalised his purchase of a semi-detached house in Bukit Bintang and decided to turn the house into an investment property for extra income. The house was made available for rent at RM15,000 per month.

Continued …

On 15 December 2019, Mr. Wee had entered into a three-year rental agreement starting from January 2020 with Mr. Kruger. Mr. Kruger is to pay Mr. Wee a refundable security deposit of three-month rental and a utility deposit of RM3,000 before 31 January 2020.

During the year 2020, Mr. Wee had incurred the following expenditures with regard to the house.

	RM
Legal cost for preparing the first rental tenancy agreement and stamp duty	4,100
Installation of air-conditioners, water heaters, and water purifiers	28,800
Furniture and fittings	19,860
Fire insurance premium for the year 2020	3,000
Interest on loan for the year 2020	57,360
Quit rent and assessment	2,040
	115,160

Required:

Compute the statutory rental income of Mr. Wee for the Year of Assessment (YA) 2020. Indicate '***nil***' in appropriate column for all items that do not require any adjustment.

(6 marks)

Part B

Mr. Govind Samy is a Malaysian-born photographer working with an international wildlife foundation. Even though his work is mainly based in Malaysia, he has been travelling a lot in recent years. In the year 2020, he was sponsored by his employer to pursue a professional course in the Stockholm Photography Academy which caused him to stay the entire year in Sweden.

The following table details his history of travel from the years 2016 to 2021.

Year	Period of stay in Malaysia	No. of days
2016	31.12.2016 – 31.12.2016	1
2017	01.01.2017 – 21.02.2017	52
	08.03.2017 – 17.07.2017	132
2018	01.04.2018 – 30.05.2018	60
	01.08.2018 – 01.10.2018	62
2019	01.06.2019 – 14.09.2019	106
	13.11.2019 – 31.12.2019	49
2020	Not in Malaysia	0
2021	01.01.2021 – 02.07.2021	183

Mr. Govind Samy had taken leave from work to attend a prayer for his late grandfather in Varanasi, India from 22.02.2017 to 07.03.2017.

Continued …

Required:

Determine Mr. Govind Samy's tax residence status for each of the relevant Years of Assessment. Support your answers using the relevant provisions of the Income Tax Act 1967 (as amended).

(14 marks)

(Total: 20 marks)

QUESTION 5

Mr. Harinder Singh is the sole owner of Freshly Frozen, a business supplying frozen meats in Sabah. The business has been closing its accounts on 31 December annually.

The following table provides the information on the balances of the property, plant, and equipment owned by Freshly Frozen as at 1 January 2020.

Asset	Asset classification	Year of acquisition	Acquisition cost	Residual expenditure
Cold water pump	General machinery	2017	RM180,000	RM68,400
Air circulation machine	General machinery	2018	RM97,000	RM50,440
Industrial freezers	Heavy machinery	2017	RM250,000	RM50,000
Factory	Purchased building	2018	RM469,000	RM393,960

The table below provides the information on disposal of assets made in the year 2020.

Asset disposed	Sales proceeds
Cold water pump	RM57,800
Industrial freezers	RM55,000

Freshly Frozen had also acquired the following assets in the year 2020.

Newly acquired assets	Date of acquisition / completion	Cost of assets
New Ford Ranger SUV for business travels by executives. Freshly Frozen took a hire purchase loan for sixty months after paying a deposit of RM25,920. The monthly instalment begun on 1 May 2020. The vehicle is not licensed as a commercial vehicle.	30 March	RM216,000
New refrigerated delivery trucks. The trucks were purchased by cash.	11 April	RM70,080
Blast chiller (heavy machinery)	19 August	RM204,000

Continued …

Newly acquired assets	Date of acquisition / completion	Cost of assets
Cost of preparing, cutting and levelling land to install the blast chiller on the empty land beside the factory building.	23 August	RM13,060
Construction of a small employees' R&R building next to the factory. After the construction was completed, the building was immediately put into use.	7 October	RM22,000

Required:

Calculate all the relevant allowances as well as balancing adjustments due to Freshly Frozen in respect of the property, plant and machineries it owned for the Year of Assessment (YA) 2020. Round up your answers to the nearest Ringgit Malaysia (RM).

(Total: 20 marks)

Continued …

APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

1. Income tax rates for resident individuals for the Year of Assessment (YA) 2020.

Chargeable Income (RM)	Calculations (RM)	Tax Rate %	Tax Payable (RM)
0 - 5,000	On the first 5,000	0	0
5,001 – 20,000	On the first 5,000 Next 15,000	1	0 150
20,001 - 35,000	On the first 20,001 Next 15,000	3	150 450
35,001 - 50,000	On the first 35,000 Next 15,000	8	600 1,200
50,001 - 70,000	On the first 50,000 Next 20,000	14	1,800 2,800
70,001 - 100,000	On the first 70,000 Next 30,000	21	4,600 6,300
100,001 - 250,000	On the first 100,000 Next 150,000	24	10,900 36,000
250,001 - 400,000	On the first 250,000 Next 150,000	24.5	46,900 36,750
400,001 - 600,000	On the first 400,000 Next 200,000	25	83,650 50,000
600,001 – 1,000,000	On the first 600,000 Next 400,000	26	133,650 104,000
1,000,001 – 2,000,000	On the first 1,000,000 Next 1,000,000	28	237,650 280,000
Exceeding 2,000,000	On the first 2,000,000 Next ringgit	30	517,650 .....

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2. Reliefs for the Year of Assessment (YA) 2020.

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief	4,000
Disabled spouse relief (additional relief)	3,500
Medical expenses for parents	5,000
Parental care	1,500 per parent
Medical expenses for serious diseases (including fertility treatment and medical examination expenses of up to RM500)	6,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old) - Each - Disabled	 2,000 6,000
Child relief (over 18 years old and studying in higher learning institutions) - Each - Disabled	 8,000 14,000
Net amount deposited into SSPN for child	8,000
Premium on deferred annuity contract and private retirement scheme	3,000
Employee's contribution to Employees' Provident Fund (EPF) or approved provident fund	4,000
Premium on life insurance - Public servants under pension scheme - Others	 7,000 3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	250
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Lifestyle expense (additional)	2,500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten	3,000
Payment for accommodation at registered premises and entrance fee to tourist attractions.	1,000

3. Rebates for the Year of Assessment (YA) 2020.

	RM
Chargeable income not exceeding RM35,000	
- Individual	400
- Additional relief when spouse relief is claimed	400

Continued …

4. Values of benefits-in-kind.

a. Car and fuel benefits

Cost of car (when new) (RM)	Prescribed annual value of private usage of car (RM)	Fuel per annum (RM)
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of car benefit equal to half of the above prescribed annual value is taken if the car provided is more than five years old, but the value of the fuel provided remains unchanged.

Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600.

b. Household furnishing, equipment, and appliances

Type of benefits	Annual value of benefit (RM)
a. Semi-furnished with furniture in the lounge, dining room, or bedrooms.	840
b. Semi-furnished with furniture as in (a) above and one or more of the following: air-conditioners, curtains and carpets.	1,680
c. Fully-furnished with furniture as in (a) and (b) above and one or more of the following: kitchen equipment, crockery, utensils, and appliances.	3,360

c. Provision of the following benefits by employer

Gardeners	RM3,600 per annum
Domestic servants	RM4,800 per annum
Guard	RM4,800 per annum

Continued …

5. Capital and industrial building allowances

Type of assets	Initial allowance rate (%)	Annual allowance rate (%)
Motor vehicles and heavy machinery	20	20
General plant and machinery	20	14
Office equipment, furniture and fittings, others	20	10
Computers, information technology equipment and computer software, accelerated capital allowance	20	40
Industrial building	10	3

End of Paper.